

Message Text

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ACTION EB-08

INFO OCT-01 EA-10 NEA-10 IO-13 ISO-00 STRE-00 AGR-01
CIAE-00 COME-00 INR-10 LAB-04 NSAE-00 SP-02
STR-07 TRSE-00 FRB-03 OMB-01 /070 W
-----042020 121208Z /40

R 110925Z AUG 78
FM AMCONSUL HONG KONG
TO SECSTATE WASHDC 2482
INFO AMEMBASSY BANGKOK
AMEMBASSY COLOMBO
AMEMBASSY JAKARTA
AMEMBASSY KUALA LUMPUR
AMEMBASSY MANILA
AMEMBASSY NEW DELHI
AMEMBASSY SEOUL
AMEMBASSY SINGAPORE
AMEMBASSY TAIPEI
AMEMBASSY TOKYO
USMISSION GENEVA

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STATE PASS STR ELECTRONICALLY FOR MIKE SMITH

GENEVA FOR PHELAN

E.O. 11652: N/A
TAGS: ETRD, EIND, HK
SUBJECT: HONG KONG SPINNING MILL CLOSURE

1. HONG KONG'S FOURTH LARGEST SPINNING AND WEAVING MILL (56,000 SPINDLES, 320 LOOMS), "HONG KONG SPINNERS LTD." (HKSL), CLOSED DOWN IN MID-JULY, DISPLACING 1400 WORKERS AND SENDING MOMENTARY JITTERS THROUGH HONG KONG'S TEXTILE INDUSTRY. ACCORDING TO HKSL MANAGEMENT, THE COMPANY PLANS TO SELL THE PLANT'S LANDSITE FOR
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RESIDENTIAL/COMMERCIAL DEVELOPMENT AND TO RELOCATE ITS SPINNING OPERATIONS IN SRI LANKA OR POSSIBLY INDONESIA. THE DISCHARGED WORKERS HAVE SINCE SETTLED ON SEVERANCE PAY TERMS AND MANY HAVE FOUND NEW EMPLOYMENT IN INDUSTRIES SUFFERING FROM HONG KONG'S CURRENT LABOR SHORTAGE.

2. LOCAL MEDIA REPORTS SAW THE HKSL CLOSURE AS PRESAGING

GREATER DIFFICULTIES FOR HONG KONG'S SPINNING AND WEAVING INDUSTRY. WHILE THAT END OF THE TEXTILE INDUSTRY HAS BEEN TROUBLED BY DIMINISHED EXPORT EARNINGS IN RECENT YEARS (GARMENTS HAVING BECOME THE LEADING TEXTILE EXPORT) AND IS THE SEGMENT HARDEST HIT BY BILATERAL TEXTILE RESTRAINT AGREEMENTS, MOST NOTABLY THE ONE WITH THE EEC, HONG KONG'S SOARING REAL ESTATE MARKET APPEARS EQUALLY TO BLAME. AN INDUSTRIAL SITE APPROVED FOR RESIDENTIAL/COMMERCIAL USE WAS RECENTLY SOLD FOR US\$40 MILLION PER ACRE WHILE A PRIME CENTRAL BUSINESS PROPERTY WENT FOR US\$130 MILLION PER ACRE. ANOTHER EXAMPLE: HONG KONG'S LARGEST OFFICE BUILDING - THE 50 - STOREY CONNAUGHT CENTRE - IS SAID TO HAVE PAID FOR ITSELF IN UNDER SEVEN YEARS. SUCH BOOMING REAL ESTATE VALUES HAVE TEMPTED SEVERAL MAJOR SPINNERS (AND OTHERS) TO CONSIDER SELLING OR SWITCHING THEIR LAND SITES TO MORE PROFITABLE USE. ANOTHER LARGE MILL, OVERSEAS WEAVING LTD. CLOSED DOWN ABOUT TWO YEARS AGO AND SOUTHSEA ISLAND TEXTILE MANUFACTURING COMPANY RECENTLY SOLD OFF A TRACT OF LAND IT WAS NOT USING.

3. IN CONGEN'S VIEW, HSKL'S SHUTDOWN DOES NOT SOUND THE DEATH-KNELL OF HONG KONG SPINNING AND WEAVING, BUT IT DOES REFLECT A RETRENCHMENT IN THE INDUSTRY. ONCE HONG KONG'S PRINCIPAL TEXTILE EXPORTS, YARNS AND FABRICS NOW ACCOUNT FOR ONLY 12 PERCENT OF THE TERRITORY'S EARNINGS FROM TEXTILES, AND MANY HONG KONG MILLS NOW SELL 70 PERCENT OF THEIR OUTPUT IN HONG KONG ITSELF. WITH THEIR RELATIVELY LIMITED OFFICIAL USE

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SMALL MILLS, 31,000 SPINDLES AND 380 LOOMS BEING THE AVERAGE SIZE, HONG KONG SPINNERS DO NOT BENEFIT FROM THE ECONOMIES OF SCALE OFTEN ENJOYED BY THEIR COMPETITORS IN OTHER COUNTRIES. THESE TRENDS COUPLED WITH HIGH LAND VALUES HARDLY ENCOURAGE SPINNERS TO ENLARGE THEIR CURRENT OPERATIONS. EVEN THE BEST-CAPITALIZED AND MORE EFFICIENT MILLS HAVE NOT INCREASED THEIR CAPACITY IN THE LAST THREE YEARS, WHILE THE AGGREGATE INDUSTRY CAPACITY HAS SLIPPED SLIGHTLY FROM THE PEAK 900,000 SPINDLES INSTALLED AS OF DECEMBER 1976. THE LARGER MILLS STILL REPLACE EQUIPMENT REGULARLY, BUT THIS IS MAINLY TO REPLACE OLDER SPINDLES AND LOOMS SENT TO SOUTHEAST ASIAN SUBSIDIARIES.

4. MORE GENERALLY, THE REAL ESTATE BOOM IS BEGINNING TO CAUSE SOME CONCERN HERE BOTH FOR ITS DIMENSIONS (STIRRING MEMORIES OF THE DIFFICULT TIMES THAT FOLLOWED THE LAST ONE) AND FOR THE VALUABLE LAND IT IS DRAWING AWAY FROM THE ECONOMY'S ALREADY LIMITED INDUSTRIAL BASE. THE LATTER ADDS URGENCY TO THE HKG PROGRAM FOR ENCOURAGING AND FOSTERING INDUSTRIAL DIVERSIFICATION TO NEW AND MORE PROFITABLE MANUFACTURING ENTERPRISE.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INDUSTRY, UNEMPLOYMENT, TEXTILES
Control Number: n/a
Copy: SINGLE
Draft Date: 11 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978HONGK10891
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780330-0386
Format: TEL
From: HONG KONG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780875/aaaackjk.tel
Line Count: 116
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 04dbf264-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1770945
Secure: OPEN
Status: NATIVE
Subject: HONG KONG SPINNING MILL CLOSURE
TAGS: ETRD, EIND, HK
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/04dbf264-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014